REPORT OF THE COMMITTEE ON PENSIONS AND INSURANCE*

In the Report of this Committee, submitted at the annual meeting of the Association in Chicago on December 28, 1917, the Committee discussed at length the plans of insurance prepared by the Joint Commission appointed at the request of the Carnegie Foundation to consider the various suggestions for a plan of insurance for college teachers, and at the conclusion of the report the Committee formulated its views and recommendations as follows:

1. We believe that the plan of insurance as proposed by the Commission, if actuarially sound, is well adapted in its general features to meet the needs of teachers in American universities and colleges, although we believe experience will indicate that the plan should be modified in some particulars.

2. We recommend that this Association do not appoint representatives to participate in the organization of the proposed insurance company until there is substantial compliance with the conditions hereinafter enumerated.

3. We recommend that the American Association of University Professors express its approval of the plan and co-operate in launching it, when the following conditions have been satisfied:

(a) That before taking any steps toward the organization of the proposed issurance company and before the diversion of any funds available to the Carnegie Foundation, to the purposes of the proposed insurance company, the present obligations of the Foundation, both legal and moral, be examined and determined, so far as is practicable, with precision and definite and binding assurances be given by the Carnegie Foundation or some other responsible body that provision will be made for meeting those obligations to the extent of the financial resources of the Carnegie Foundation and of any funds available to it.

(b) That the proposed plan of insurance together with a comprehensive statement of its prospective operation be submitted to an independent body of actuaries for study, and its criticism and suggestions invited.

(c) That the proposed plan of insurance be so modified that in the organization of the proposed insurance company suitable provision be made whereby within a reasonable time, if not immediately, the power to elect the company's trustees or directors shall be vested in the policy-holders, in proportion to their contribution to the financial resources of the insurance company, and that they shall have authority to vote in person, or by proxy, at all meetings for the election of directors.

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* This report was presented, and unanimously approved, at the annual meeting of the Association, held at Baltimore on Saturday, December 28, 1918.

The Committee reserves the privilege of bringing to the attention of the Association other matters germane to this subject or supplementing the foregoing recommendations when such action seems desirable.

These recommendations were approved by vote of the Association and it was further voted "that when in the judgment of the Committee P, concurred in by the Executive Committee, the plans of insurance of the Carnegie Foundation conform to the spirit of the recommendations in this report, the Executive Committee be authorized to take such steps as may be necessary for co-operation in carrying out these plans."

During the past year this Committee has carried on an extensive correspondence with its own members and with members of the teaching profession, and it has sought through personal interviews and correspondence with President Pritchett of the Carnegie Foundation to communicate to the Foundation in detail, the views of the Committee which have been summarized in previous reports, and it has endeavored to secure some real co-operation between the Foundation and this Committee in formulating plans for the protection of the interests of those entitled to the benefit of the existing pension plan and for the establishment of the proposed scheme of insurance, which would meet the expressed views of the Association and which would commend themselves generally to members of the teaching profession.

The Committee presents its report in two parts, relating respectively to the plans for the future of the existing pension plan, and to the new plan for teachers' insurance and annuities. In each case, it first records the recent action of the Foundation and its dealings with the Committee, and then appends the Committee's comments and recommendations:

1. Future of Existing Pension System

A. Record of Action Taken

In April, 1918, the Trustees of the Foundation adopted and made public a statement in which was announced the future policy of the Foundation with respect to administering the existing pension scheme. This statement (copies of which may be procured from the Carnegie Foundation) so far as now relevant, may briefly be summarized as follows:

(a) It announced the accumulation of a reserve fund for the liquidation of pension obligations, to be paid into the treasury of the Foundation by the Carnegie Corporation. This fund is to be made up of five million dollars, to be paid into the treasury of the

Foundation as of January 1, 1918, and further additions thereto which are to be made at the rate of $600,000 annually for a period of ten years, making a total reserve to be paid by the Corporation aggregating eleven million dollars without including accumulations of interest on the capital of the reserve fund.

(b) It was announced that pensions would not be paid to teachers appointed to positions in associated institutions after November 17, 1915. A resolution to this effect was adopted by the Trustees of the Foundation on May 18, 1917.

(c) It was announced that the plan of retirement with maximum pension allowances at age 65 would be continued until June 30, 1923. After that date the age of retirement with the maximum allowance will be advanced until June 30, 1928, after which date the maximum age of retirement with the maximum allowance will be seventy years. The increase of age of retirement was indicated as follows:

Between July 1, 1923, and June 30, 1925, maximum allowance at 66
Between July 1, 1925, and June 30, 1926, maximum allowance at 67
Between July 1, 1926, and June 30, 1927, maximum allowance at 68
Between July 1, 1927, and June 30, 1928, maximum allowance at 69

It was also announced that as an alternative the teacher is to be given the option of retiring on reaching age 65, with a diminishing pension allowance, the actual allowance being the maximum allowance diminished at the rate of one-fifteenth for each year by which the age at which the maximum allowance is available is anticipated.

For those reaching age 65 after June 30, 1923, who are unmarried the allowance is to be reduced to 66⅔ per cent (to 85 per cent if the salary is $1800 or less).

The reason given for these sweeping reductions of the benefits of the existing pension system was that actuarial computations prepared for the Foundation indicate that the resources of the Foundation, including the reserve fund created through the generosity of the Carnegie Corporation already referred to, will not be sufficient to maintain the pension plan on the present basis for those who are appointed to associated institutions before November 17, 1915 without a substantial diminution in the rate of expenditure.

2. The following resolutions were adopted by this Committee at a meeting held June 17, 1918, in New York City, and were thereafter transmitted to the Trustees of the Carnegie Foundation:

Voted, that the plan embodied in President Pritchett's public statement of April, 1918, and subsequently adopted by the Trustees of the Carnegie Foundation without previous consultation with this Committee or any other representative body of university teachers, does not conform to the spirit of the recommendations contained in the second report of this Committee of January, 1918. We therefore offer the following suggestions for the amendment of the plan:

(a) That, in view of the repeated declarations of the Trustees, it is manifestly implied that the entire eleven million dollars recently granted by the Corporation, together with its increment and with the interest on the original capital of the Foundation, is to be devoted exclusively to the payment of pensions, with a view to realizing, as nearly as these resources permit, the reasonable expectations of teachers in accepted institutions, upon the basis of the rules in force on November 17, 1915. The Committee accordingly requests the Trustees of the Foundation to publish a formal declaration to this effect.

(b) That, inasmuch as it is clearly impossible at the present time to determine with even approximate precision what scale of pensions these resources will permit the Foundation to pay, the Committee protests against the adoption at this time of any permanent scale, and especially against that proposed in President Pritchett's communication of April, 1918, which there is reason to believe to be less liberal than the above mentioned resources will make possible. The scheme of pensions set forth in that communication should, however, be made public as an indication of the minimum benefits which younger teachers in the accepted institutions may, in the least favorable circumstances, expect. It is also desirable that the actuarial computations and the data on which they are based be made accessible to representatives of the teaching profession.

(c) That, in view of the special hardship of sudden changes in the rules affecting men near the age of retirement, the provision relating to men between 60 and 65, in President Pritchett's statement of April, 1918, should be observed by the Foundation.

(d) That, at the end of five years from the present date, the Foundation should in the light of its experience up to that time, and upon the basis of further actuarial studies, take up with a committee of this Association the question of the framing of new rules, in accordance with the principle mentioned under (a), should at that time determine what pensions, approximating as nearly as possible to the 1915 rules, its resources will enable it to pay. Decision as to the least objectionable modifications of those rules should be reached only after consultation with representatives of the university teaching profession, *i. e.*, with a committee of this Association and possibly with other bodies.

(e) That, any new scale of pensions, to be adopted in 1923, as provided in the preceding paragraph, shall not apply detrimentally to teachers who, on June 30, 1923, are between the ages of 60 and 65.

(f) That, the retroactive provision, whereby teachers entering the service of accepted institutions between November 17, 1915, and the date of the actual annulment of the old rule by the Foundation are excluded from the benefits of the existing pension system, is not in accord with the declaration of the Trustees

"that whatever plan is finally adopted will be devised with scrupulous regard to the privileges and expectations which have been created under existing rules," and should be repealed.

It was further voted, "that the Foundation be requested to encourage the governing bodies of the several associated institutions to adopt a plan whereby the younger teachers now entitled to the benefits of the existing pension plan be enabled to retire at sixty-five rather than at seventy."

3. At the annual meeting of the Board of Trustees of the Carnegie Foundation, November, 1918, the following minute was adopted, and was on November 21, 1918, transmitted to this Committee.

The Board of Trustees acknowledges the receipt of the suggestions and recommendations contained in the Resolutions adopted by the Committee on Pensions and Insurance of the American Association of University Professors at its meeting of June 17, 1918. The trustees of the Foundation have sought to comply as fully with the suggestions of the Committee as the fixed amount now available for these retiring allowances will enable them to do. In response to these Resolutions the trustees authorize the following additional statements which would seem to make clear the purposes of the trustees:

(a) The reserve created by the aid of the Carnegie Corporation and the subsequent additions to it and all interest accumulations thereon can be used under the arrangement with the Carnegie Corporation only for the payment of the retiring allowances to teachers in the associated colleges and universities.

(b) The adjustment explained in the statement to teachers of the Associated Institutions in the circular of the Foundation dated April 22, 1918, stated that the scale adopted was based upon exhaustive actuarial examinations, but that the experience of the future might show a situation that would make possible a more liberal scale than that based upon these actuarial computations. In the event that such a reduction in the expected load is realized it is the intention of the Trustees to make as liberal provision for the payment of pensions as the funds will permit.

(c) The income of the endowment of the Foundation is now being expended in accordance with the directions of the Founder "to provide retiring pensions for the teachers of Universities, Colleges and Technical Schools in our Country, Canada and Newfoundland under such conditions as you (the trustees) may adopt from time to time." But it was further provided by the Founder that "by a two-third vote they (the trustees) may from time to time apply the revenue in a different manner and for a different though similar purpose to that specified, should coming days bring such changes as to render this necessary in their judgment to produce the best results possible for the teachers and for education." It is, of course, not possible for trustees to bind their successors with respect to either of these conditions. It is understood that the expense of educational studies is met from a special endowment not available for pensions.

(d) The actuarial computations upon which the action of the trustees has been based are at the disposition of the Committee for any examination they may desire to make.

B. COMMENTS OF THE COMMITTEE

The net result of these negotiations, and of the eventual action of the Foundation with respect to the existing pension system, may be briefly summarized as follows:

(a) Through the generosity of the Carnegie Corporation eleven million dollars has been added to the funds of the Foundation for the purpose of enabling it to fulfil, to a greater extent than its previous resources made possible, the expectations of retiring allowances justified by the published rules and announcements of the Foundation.

(b) Certain additional assurances have been given that this fund will be used for the payment of pensions. It is to be observed, however, that the above-noted resolution (a) of the Trustees of the Foundation, to the effect that the reserve created by the Corporation's gift "can be used under the arrangement with the Corporation only for the payment of retiring allowances to teachers in the associated colleges and universities," is in express conflict with the terms of the agreement between the Corporation and the Foundation. As published in "A Statement to the Teachers in the Associated Colleges and Universities" (April 5, 1918), that agreement provides (p. 7) that if "the reserve should prove greater than is demanded for this purpose (the payment of pensions), the remainder shall be added to the permanent endowment of the Foundation to be used for its corporate purposes." It was to insure the use of the entire reserve fund for the payment of retiring allowances instead of the ultimate addition of a substantial portion of it to the endowment of the Carnegie Foundation that the Committee urged the Trustees to adopt a definite program for revision of the scale of retiring allowances at the expiration of a fixed period and in the light of actual experience, a suggestion which for reasons not disclosed the Trustees have declined to accept.

It is further to be observed that, even by the terms of the resolution of November, 1918, there is assurance that the funds of the Foundation will be used for the payment of pensions only so long as the present agreement between the Foundation and the Corporation remains unmodified. That agreement, however, can apparently be modified at any time by the consent of the two boards, which consist in great part of the same persons.

In their formal statement the Trustees give no assurance that the

income from the endowment of the Foundation will be used for the payment of pensions; and the published rules can be varied or abandoned, at any time without the violation of any legal obligation, or of any moral obligation differing in nature from those which the Foundation has, in several previous instances, indicated that it does not regard as binding.

(c) In disregard both of the vote unanimously adopted by the Joint Commission (of which the President of the Foundation and five of its Trustees were members), and published in its report of April 27, 1917 (p. 8), in disregard also of the above-cited resolutions of this Committee, the Board of Trustees has declined to modify its action whereby teachers entering the service of the accepted institutions since November, 1915, will be deprived of pensions to which they were entitled under rules not abrogated until 1917. There is no reason to doubt that a number of teachers have been influenced to retain positions in, or accept calls to, these institutions, during this period, by the expectation that they would receive the pensions specified by the rules then apparently in force. The Committee, therefore, is compelled (especially in view of the Foundation's now increased resources) to take the view that the Foundation has disregarded the formally announced declaration of its Trustees "that whatever plan is finally adopted will be devised with scrupulous regard to the privileges and expectations which have been created under existing rules."

II. New Plan for Teachers' Annuities and Insurance

A. Record of Action Taken

1. The plan of insurance referred to in our last report, with some modifications and additional details, has been submitted by President Pritchett to a committee of the Actuarial Society of America and to a committee of the American Institute of Actuaries for their criticisms and suggestions. Both committees have reported in substance that the plan as submitted is safe and practicable if capably managed. Apparently, however, no definite plan for the selection of risks was submitted to either of these committees, and the reports of both committees urge conservatism in the selection of risks by certification. Both recommend changes in the form of policy and both comment at length on the fact that the policies provide for a flat premium rate without the usual rebate or "dividend" to

policy-holders which is offered in participating policies. Taken together the two reports indicate no adequate reason for not issuing the usual form of participating policy sold by other insurance companies organized or doing business under the laws of New York. (Copies of these reports may be obtained from the Carnegie Foundation.)

2. An insurance company has been incorporated under the laws of the State of New York under the name, "Teachers' Insurance and Annuity Association of America." It is announced that the company is to begin business with a capital of one million dollars paid into the Insurance Company by the Carnegie Corporation (not the Carnegie Foundation, as originally proposed) which owns and holds the entire capital stock of five hundred thousand dollars. The Trustees of the Carnegie Corporation have adopted the following resolution with respect to the control of the insurance company:

Voted, That it is the intention of the Carnegie Corporation whenever a group of policy-holders has been secured sufficiently large to be representative of the college and university teachers of the United States and Canada, in conference with the interested parties to provide machinery by which the policy-holders, through representatives selected by them, shall participate in the election of the trustees who manage the Association.

As at present constituted, however, the Insurance and Annuity Association is controlled by a board of sixteen trustees chosen by the Carnegie Corporation as provided by the by-laws of the Insurance Association. Six trustees constitute a quorum for the transaction of business. Its President is Henry S. Pritchett, who is also President of the Carnegie Foundation; its Secretary is the Secretary of the Foundation; the Treasurer is the Treasurer of the Foundation; and the Chairman of the Board is a member of the Foundation's Board of Trustees. Of the trustees of the insurance company, eight are or recently have been trustees or employees of the Carnegie Foundation; the same is true of four of the six members of the Executive committee. Three members of this Committee constitute a quorum and the Committee is given all the powers, of the Board of Directors, in the intervals between the meetings of the board. There are two professorial representatives on the Board of Trustees: Professor Michael M. McKenzie of the University of Toronto and Dean F. W. Nicolson of Wesleyan University, formerly a trustee of the Foundation. There are no professorial representives on either the Executive Committee or the Finance Committee.

It should be added that two members of your Committee were, as individuals, offered appointments to the Board of Trustees of the insurance company by President Pritchett, who at that time proposed to have three teachers elected to the Board of Trustees. It seemed clear to both members that they could not with propriety accept such appointment, while the question of approving the new corporation's plan was pending before the Committee, and before the Committee's report had been submitted to the Association. The Committee was given no information with respect to the personnel of the officers and trustees of the insurance company or of the provision of the Charter and by-laws until the company was organized, its trustees and officers selected and the details of the organization publicly announced.

There has lately been published by the Teachers' Annuity and Insurance Corporation of America a Handbook of Life Insurance and Annuity Policies for Teachers, which is a brief prospectus of the newly formed insurance company, giving details of the policies which it proposes to write and stating the premium rate. This booklet either has been, or will shortly be, distributed to college and university teachers. It is therefore unnecessary to summarize its contents in this report.

B. COMMENTS AND RECOMMENDATIONS OF THE COMMITTEE WITH RESPECT TO THE PLAN OF INSURANCE AND ANNUITIES

1. Control of the Company

Neither the plan for control of the insurance company unanimously recommended by the Joint Commission, nor a definite plan for the eventual mutualization of the company, proposed by this Committee, has been adopted. The Corporation, in the resolution above cited declares only its intention, at some future time not specified, to "provide machinery whereby the policy-holders through representatives selected by them shall participate in the election of the trustees." A literal fulfillment of this intention would be compatible with a wholly negligible representation of the policy-holders or the teaching profession on the Board of Trustees or in the processes by which the trustees are to be elected. Meanwhile, the company is left in a control which, for all practical purposes, is identical with that of the Carnegie Foundation. We deem it unnecessary to repeat at length those portions of our last report

(BULLETIN, Vol. III, No. 7, p. 34), in which we direct attention to the menace to educational freedom in the United States of uniting in the Carnegie Foundation the function of critic and mentor of our educational institutions with that of distributing financial benefits to such institution and of controlling the savings of their teachers. We did not in fact at that time contemplate that the insurance company was to be brought immediately under the control of the Foundation. We only pointed out that "the exigencies of death and retirement of the members of a self-perpetuating board of trustees might in a comparatively short time place the absolute control of the company in the hands of a board and of executive officers who were also members of the governing board of the Foundation or are virtually selected by that body. Such an outcome would, in this Committee's opinion, be sure to create dissatisfaction and antagonism on the part of the policy-holders and would be prejudicial to the success of the undertaking." What we contemplated as only a possible eventuality turns out to be the basis of the organization of the insurance company as it is to begin business.

2. Rates of Premium

On account of the late date of issue of the Handbook of the Teachers' Insurance and Annuity Association, the Committee has not been able to make an exhaustive examination of all the types of policy therein offered, or to attempt a complete comparison of the rates with those charged for similar policies by existing companies. So far, however, as the Committee has been able to make such comparisons, it does not find that, taken at their face-value, the non-participating policies offered by the Insurance and Annuity Association are, in point of cost, more advantageous to college or university teachers, than are those offered by a number of well-managed participating companies, when allowance is made for the "dividends" paid by the latter. If the holder of a policy ceases for any reason to be a member of the teaching profession, the policy provides that the premium paid by the insured, or the annuitant as well, automatically increases 11.1 per cent. Just why there should be an increase in the annuity premium if the annuitant leaves the teaching profession, the members of which are believed to be peculiarly blessed with longevity is not apparent. An actuary of one of the largest insurance companies states, in reply to an inquiry of the chairman of the Committee:

So far as concerns participating policies, I have made a comparison on the Ordinary Life plan at three ages, 25, 35, and 45, with a company which pays as large dividends as any other American company. The difference between the gross premium charged by that company, less the dividends paid for a period of ten years, shows a resulting cost slightly in excess of the rates charged by the Teachers' Association. If the policy were terminated at any time within ten years, it would be more advantageous to have carried insurance with the Teachers' Association, but less advantageous after that time because of the increase in dividends under the participating policy.

A similar estimate has been made by President Pritchett in a communication to the Chairman of this Committee. If a policy issued by the Teachers' Association be compared with a similar policy issued by a certain well-known company, the premium in the latter, Mr. Pritchett observes, "will be much higher." "If, however," he adds, "you carry the . . . Company mutual rates into the future and assume that earnings on the company's investments are going to be on the same level as of recent years, you will find that at the end of about ten years the net cost of the . . . Company policy rate thus obtained will come down to the level of the corresponding rate published in the Handbook. In time it may fall below the rate there quoted." President Pritchett, however, offers reasons, which seem to the Committee unconvincing, for doubting whether the company he names, or other participating companies, will continue to obtain the present rate of interest on their investments.

Other computations made for the Committee confirm the conclusion that, except for very short term policies, college and university teachers can probably do as well by taking insurance in any one of several existing companies as by purchasing the policies of the new association at the rates now announced and with the benefits thus far promised, if there is no distribution of surplus among policyholders. It should be added that the new company offers, in addition to the more usual policies, some desirable forms of annuity and insurance not at present written by most of the older companies which President Pritchett believes will be desired by university teachers. The Committee believes, however, that the latter companies would readily write similar policies at approximately the same net cost to the purchaser, if requested to do so by any considerable number of university teachers.

The explanation offered by President Pritchett in his 12th Annual Report (1917), for the unwillingness of the Teachers' Insurance

and Annuity Association to offer participating insurance, as most companies at present do, is the statement of President Pritchett that, under the laws of the State of New York, "dividends" of participating companies are required to be distributed annually and that the annual dividends of the new company would for a time be so small as to be less than the cost of postage. This explanation seems to the Committee so inconsequential as to require no discussion.

3. Use of Surplus

It is true that, as President Pritchett has pointed out, the new company may be expected, since it pays no dividends, rapidly to accumulate a surplus, and that it is in a more favorable position for doing so than ordinary companies. In a letter to the Chairman of this Committee, Mr. Pritchett states that "under the provisions of the Charter such accumulations must be used for the benefit of the policy-holders." The Committee is, however, upon examination of the Charter, unable to find in it such a provision. The only clause relevant to the matter is that which requires the corporation "to conduct its business without profit to the corporation or its stockholders." There is in the By-Laws a further provision that no officers or trustees shall be paid salaries in excess of $5000 per annum, "unless such payment shall first be authorized by a vote of the Board of Trustees of the Association," also that no pensions shall be paid to any officer or trustee, or to any member of his family. There is in these provisions no assurance that the accumulations will be used wholly for paying dividends to policy-holders or for reducing their premiums. The Charter, indeed, expressly provides that the Corporation "shall transact business exclusively on the non-mutual basis and shall issue only non-participating policies." Policy-holders would have no legal standing to object to the amendment or repeal of the provision of the Charter and by-laws referred to either by action of the Carnegie Corporation, the sole stockholder, or by any purchaser or subsequent owner of the stock. There is nothing at the present time to prevent the Board of Trustees from employing at their discretion the surplus from the savings invested by college and university teachers in the company—within the limitations set by the above-cited clauses and by the laws of the State of New York relating to insurance companies.

The Committee finds it pertinent at this point to recall a sentence

from the report unanimously adopted by the Joint Commission in 1917: "The man of thirty who participates in a pension plan under which he expects an annuity thirty-five or forty years in the future will take some risk of disappointment in accepting any arrangement less secure than a contractual one." This remark has, we believe, been more than once cited with approval by President Pritchett; and it indicates, in the Committee's opinion, the primary rule which should guide the action of any teachers who may be considering dealing with the new company. The warning thus incorporated in the report of the Joint Commission gains force from any review of the history of the Carnegie Foundation. Those responsible for the management of Mr. Carnegie's benefaction have exercised very freely and frequently the liberty of changing their minds and of radically and abruptly altering the policy of the Foundation. Since the new insurance company is under the same management, there is no reason to anticipate that its history will not be similar, so far as the insurance laws permit. The Committee, therefore, is strongly of the opinion that any college or university teacher will take some risk of disappointment in accepting any assurance less secure than a contractual one for the employment of the accumulated surplus of the new company exclusively for the benefit of the policy-holders through the payment of dividends or reduction of premiums. No such contractual guarantee is now offered by the Teachers' Insurance and Annuity Association; in fact, it is forbidden by its Charter to give such guarantee, and the contract actually offered by the Association contains the provision: "This policy is issued on the non-participating plan. It is not entitled to participate in the surplus of the Association."

Yet it is to be remembered that eventually the surplus, if any large number of teachers should take insurance in the company, will be derived chiefly from interest upon funds contributed by those teachers in the form of premiums, or by universities or colleges in their behalf.

If the new company, however, is prepared to give binding guarantees upon the point in question, the Committee is unable to see why it should for a moment hesitate to amend its Charter so as to require the company to write *only* participating policies; nor indeed, is the Committee able to see why a charter permitting this should not have been obtained in the first place.

4. Selection of Risks

The Committee finds the provisions thus far announced with respect to medical examination and selection of risks to be indefinite and unsatisfactory. President Pritchett states that "the policy of the Association will be to make the medical examination a simple and reasonable one"; and he apparently implies that the requirements of the Association in this respect will be less exacting than those of conservative companies offering general insurance. The natural effect of this—taken in connection with the considerations already mentioned—will be that the policy-holders of the new company will consist largely of risks rejected by other companies, while the great majority of teachers who are good risks will, the Committee anticipates, prefer to purchase their insurance from long-established participating companies of good reputation.

5. Surrender Value of Annuity Policies

So far as yet appears from the announcement of the Insurance Company, and from the form of annuity policy which it proposes to write, there is no indication that annuity policy-holders will at any time before reaching the age of 65 have the option of claiming the cash value of their policies instead of an annuity beginning at age 65. This is in conflict with the express recommendation of the Joint Commission.

The teacher who on reaching age 65 is in failing health or afflicted with an incurable disease should not be compelled to invest his life's savings in an annuity.

6. Disability and Convertibility Clauses

The Committee regrets that the sample forms of policies submitted contain a "disability" clause which does not in any way comply with the former recommendations of this Committee, in that it merely provides for a waiver of premiums in event of disability, but does not provide for any disability allowance, as do the disability clauses in policies offered by many insurance companies. We also regret that the term policies offered by the Association do not contain any provision for conversion into higher premium contracts, as do the similar policies issued by most insurance companies.

7. *Compulsory Participation in the Plan by Teachers*

The Rules of the Carnegie Foundation for Admission of Institutions and for Granting Retiring Allowance (1918) provide that (p. 3), "After April 22, 1918, Colleges and Universities to be eligible to the Associated list, must have accepted a participation in the contributory plan of old age annuities for their teachers as provided in the Teachers' Insurance and Annuity Association of America." At the date of drafting this report the Committee has received no complete statement as to the terms on which this participation may be had.

For reasons stated in its first report (November, 1916, BULLETIN, p. 72) a majority of this Committee does not favor any plan which involves compulsory purchase of insurance or annuities by teachers and the Committee would regard any attempt by institutions, particularly teachers, to designate the company in which they shall invest their savings, as an intolerable invasion of the private rights of the individuals affected.

For the reasons above stated, and other less important ones which it would unduly lengthen this report to include, your committee is unable to recommend that this Association express its approval of the plan of the Teachers' Insurance and Annuity Association, or that this Association co-operate in promoting that plan. The Committee is, for the same reason, unable to hold that members of this Association would be acting either for their own interest or that of their profession in purchasing insurance or annuities in the new corporation, under its present rules and form of organization.

The Committee further expresses the hope that all teachers will energetically oppose any attempt to use the power of university governing boards to prescribe to members of university faculties the manner in which they shall invest their own savings, whether in the form of insurance, the purchase of annuities, or in any other manner.

Finally, the Committee recommends that this Committee be discharged, and that a new Committee be constituted with authority on behalf of the Association:

(a) To examine and report upon the actuarial data on the basis of which the Foundation adopted its revised schedule of pension allowances, as published in the Foundation's statement of April 28, 1918, and to observe and report upon the administration of the existing pension system, and

(b) To examine any modified plans of the Teachers' Insurance and Annuity Association of America, if such should be offered, and to investigate the possibility of effecting suitable insurance for college teachers either through the co-operation of established insurance companies, or the organization of a mutual insurance company for college teachers, and to report the results of their investigation to this Association.

The Committee:

THOMAS S. ADAMS, Yale University
WALTER W. COOK, Yale University
F. S. DEIBLER, Northwestern University
FRANK H. DIXON, Dartmouth College
THOMAS C. ESTY, Amherst College
W. F. GEPHART, Washington University.
JOHN H. GRAY, Board of Appliance. 39 Whitehall St., New York City
HENRY B. GARDINER, Brown University
M. W. HASKELL, University of California
OTTO HELLER, Washington University
JACOB H. HOLLANDER, The Johns Hopkins University
S. S. HUEBNER, University of Pennsylvania
JOSEPH JASTROW, University of Wisconsin
E. W. KEMMERER, Princeton University
ALFRED C. LANE, Tufts College*
ARTHUR O. LOVEJOY, The Johns Hopkins University
H. A. MILLIS, University of Chicago
H. L. RIETZ, Iowa University*
ASHLEY H. THORNDIKE, Columbia University
HENRY S. WHITE, Vassar College
W. F. WILLCOX, Cornell University
HARLAN F. STONE, *Chairman*, Columbia University

* Professor Lane and Professor Rietz are not prepared to condemn the general principle of compulsory insurance, provided it is stipulated for by the contract between the teacher and his college or university at the time of his appointment.

SUPPLEMENTARY STATEMENT

CONCERNING PLAN OF COMPULSORY AND CONTRIBUTORY ANNUITIES PROPOSED BY THE CARNEGIE FOUNDATION

Certain information concerning the plan for compulsory annuities, referred to near the close of the report of Committee P, has come into the hands of the officers of the Association and the Chairman of the Committee since the report was drafted. In view of the importance of the matter, and of the desirability of prompt communication of this information to members of the Association, it has seemed best to the President of the Association and the Chairman of the Committee to submit the following supplementary statement, for which the signers alone are responsible. A submission of the matter to the Committee would have precluded publication in this issue of the BULLETIN.

A circular of the Carnegie Foundation which bears the date of December 6, 1918, but which had not reached the Chairman of the Committee before the Baltimore meeting, states as follows the terms upon which colleges or universities may be admitted to participation in the new system of compulsory annuities for teachers referred to in the Committee's report:

> "1. (a) Each full-time professor, associate professor, assistant professor, or officer of equivalent rank in the service of associated institutions, who does not enjoy the privileges given under the non-contributory plan now in operation, shall contribute annually in monthly instalments five per cent of his salary toward an old age annuity contract in the Teachers' Insurance and Annuity Association. In the case of institutions admitted hereafter to the associated list this requirement shall apply to all professors, associate professors, assistant professors, and officers of equivalent rank, admitted to the service of the institution after acceptance of participation in the contributory plan.
>
> (b) Each associated institution shall pay a corresponding five per cent in the case of any such contributing professor, associate professor, assistant professor, or officer of equivalent rank, provided that the institution shall be under no obligation to begin its payments before the teacher begins his, or to make annual contributions in excess of those made by him.
>
> (c) Each institution shall make a like contribution in the case of any teacher below the rank of assistant professor who

> has voluntarily accepted a participation in the contributory plan and who has had not less than three years of service as a teacher in a college, university, or technical school.
>
> 2. The Trustees of the Carnegie Foundation request that any institution now associated with the Foundation which desires to be admitted to the new privileges of the Foundation, including disability allowances, will announce its acceptance of the contributory system, and the specific plan upon which the institution itself will participate, to become effective not later than January 1, 1920."

The effect of these provisions would be to establish a system of compulsory annuity contributions by teachers in the institutions in which the provisions are adopted. In such institutions every teacher of the rank of assistant professor or above will—whether or not he needs, desires, or can afford to purchase an annuity in this amount—be required to pay five per cent of his salary toward the cost of an annuity in the new insurance corporation. He will, however, receive a like amount from his institution towards the purchase of the annuity.

Colleges or universities imposing this requirement upon their teachers, and making the specified contribution, will be listed as "associated institutions"; and to teachers in institutions on this list the Foundation announces its "intention" (but "without any legal obligation") of granting the two following additional privileges:

(a) "The Foundation will provide for its income, if necessary, such amounts as may be necessary to secure to teachers in associated colleges and universities an annual return of four and one-half per cent on the payments made by them to the Teachers' Insurance and Annuity Association for the purchase of deferred annuities—said sums to be paid at the time of retirement or in case of death." (Policy-holders not in associated institutions are guaranteed by the insurance company interest at the rate of four per cent only.)

(b) The Foundation also intends to grant to teachers in associated institutions disability allowances upon the following terms:

> "(a) Disability shall be interpreted to mean total permanent disability as certified by a medical examiner designated by the Foundation.
>
> "(b) To be eligible to a disability allowance the teacher must have contributed for not less than five years towards an old age annuity and must have been during the period in active service.
>
> "(c) When retired on the ground of disability the teacher will assign his annuity policy to the Foundation.

"(d) The Foundation will provide an annuity of two-thirds the amount the teacher would have obtained if he had continued to age sixty-five average contributions equal to the average of the five years preceding his disability. The annuity payments will continue for life, or in case of death, until the accumulation to the credit of the teacher has been returned to his estate. Annuity allowances will be limited to a maximum of three thousand dollars, and are subject to discontinuance in case of the annuitant's recovery of health. In the case of such recovery the unexpended portion of the contributions made by and for the teacher, and their accumulations, shall remain to his credit."

Teachers in colleges or universities not upon the list of associated institutions may purchase insurance or annuities in the new company, but will not enjoy the two additional benefits above specified, which are offered by the Foundation, not by the insurance company, and are not contractual.

The question thus arises whether it is to the interest of teachers and of the institutions, that colleges and universities should accept the contributory plan, and impose upon their professors the requirement that they devote a portion of their salaries to the purchase of deferred annuities in the new Teachers' Insurance and Annuity Association. Upon this point the signers of this supplementary statement offer the following observations:

1. There is manifestly a strong presumption—for reasons indicated in the report of the Committee—against action by college or university trustees which would have the effect of compelling all teachers of professorial rank, not merely to purchase annuities which they may neither need nor desire, but also to make this investment of their savings in a particular, outside company designated by the trustees. There appears to us to be an equally manifest presumption against colleges offering a bonus to teachers in order to induce them to purchase insurance in a particular company. In our opinion, colleges or universities which are disposed to add five per cent to the salaries of teachers, on condition that this teacher devote this and a like sum from his present salary to the purchase of a deferred annuity, should leave the teacher free to select the company in which he will thus invest a portion of his compensation.

2. It may, however, be contended that the presumptions just mentioned are offset by the fact that the Carnegie Foundation offers institutions two specific inducements to require their teachers to

purchase annuities in the Teachers' Insurance and Annuity Corporation, and to make contributions from their corporate funds towards the same purpose,—the inducements, namely of disability insurance and the addition of one-half of one per cent to the interest on payments made towards the purchase of annuities in the new company. The question consequently resolves itself into this: Are these two benefits sufficient to annul the presumptions above mentioned, and to justify boards of trustees in entering into an agreement with the Carnegie Foundation for the establishment of the proposed contributory and compulsory system of professorial annuities. Upon this question the following considerations seem pertinent.

(a) The Carnegie Foundation does not contract, nor does it promise, to grant the two benefits specified to teachers in institutions which may adopt the proposed plan. It carefully disclaims all contractual responsibility, and merely declares its "intention" of granting those benefits. Experience has shown, however, that in great part the intentions announced by the Carnegie Foundation remain unfulfilled. The Foundation has in the course of its history, offered to American colleges and universities, upon certain conditions, an extensive series of benefits for their teachers. In spite of the fulfillment of the conditions by many institutions, a number of the most important of these benefits have been completely and suddenly withdrawn, and the rest have been greatly reduced in value. It appears to us, therefore, that a declaration of intention by this corporation does not afford a substantial basis for any action by the governing board of a college or university.

(b) In any case, any sums taken out of the income of the Foundation to provide disability insurance for teachers in institutions on the new "accepted list," or to increase the rate of interest on future annuity payments, must reduce by so much the sum available for fulfilling the "reasonable expectations" of teachers entitled to pensions under the old rules. Committee P has, as its report indicates, urged upon the Trustees of the Foundation that a "scrupulous regard" for the obligations of the Foundation to these older teachers would require that those expectations—and especially such as were justified by the rules in force in 1915—should be as nearly fulfilled as the resources of the Foundation may permit, though they cannot in any event be fulfilled completely. The Committee had under-

stood the Trustees to accept this principle and to declare their intention of acting upon it. Nevertheless, it is now announced that a part of the income of the Foundation will be diverted to other uses. What should be clearly understood, both by teachers and boards of trustees, is that the resources which the Foundation may employ to give the proposed new benefits to one set of teachers will be taken away from another set of teachers (usually in the same institutions) who have in equity a prior claim—as the Trustees of the Foundation have formally recognized.

(c) The disability insurance offered by the Foundation applies only in cases of "total permanent disability." Few teachers suffer total permanent disability, as this term is usually construed by the courts; but against lesser disabilities which yet might disqualify teachers for the practise of their vocation no insurance appears to be offered. One of the two benefits which the Foundation now declares its intention of granting (to teachers in institutions which comply with its new requirements) thus appears to be of very limited value, even supposing that the intention should be realized. The other new benefit—which is equally non-contractual—namely, the offer of an additional one-half per cent interest on the accumulated sums paid by teachers and institutions towards teachers' annuities, brings the total rate of interest on these payments to less than the rate obtainable from government bonds, or good municipal bonds—the purchase of which would be a much more advantageous means of accumulating the amount necessary for the eventual purchase of an annuity.

The proposed new arrangement, it should further be noted, has the effect of continuing the supervisory relation of the Foundation to the American colleges and universities. For reasons which have been set forth in the reports of Committee P, we regard it as undesirable that this relation should become permanently established. After the arrangement is entered into by any college, it will remain within the power of the Foundation to amend or alter its rules of eligibility to the "list of associated institutions," and so to exercise pressure upon the policy of those institutions.* For the effect of the removal from that list of a college or university which failed to comply with the amended regulations, would apparently be to deprive teachers in that institution of any further claim to the

* See *Rules for the Admission of Institutions*, 1918, p. 3.

benefits held out to them by the Foundation at the time the institution was originally placed upon the list. It is, indeed, provided (though "non-contractually") that removal of a college from the list "shall not result in the discontinuance of retiring allowances already granted." There is no provision, however, precluding the discontinuance of benefits not yet actually granted, but only made the subject of a declaration of intention by the Foundation. Such discontinuance, nevertheless, would mean the disappointment of definite expectations, which the governing board of the college would be jointly responsible with the Foundation for having caused the teacher to form—expectations by which his plans of life and mode of investment of his savings would have been influenced. A governing board, under these circumstances, would be subject to a material inducement to make such changes in its organization or methods as the Foundation might dictate. It appears to us anomalous and dangerous that an irresponsible outside body should, by the voluntary action of college or university boards, be put in a position from which it can subsequently exercise this kind of material pressure upon the policies of those boards. The opinions of the Carnegie Foundation, or of its President, concerning educational questions should, in our judgment, rely upon their intrinsic merit for their influence upon the policies of our higher institutions; that influence should not be re-enforced by an arrangement enabling the Foundation, by the threat of a sudden withdrawal of anticipated benefits, to involve in more or less serious embarrassment college boards or administrative officers who decline to conform to its views.

It remains to ask whether the teacher will not substantially benefit by the provision that his college or university shall pay half the amount of his annuity premiums. Upon this two things are to be said. In the first place, it is questionable whether much advantage would in the long run accrue to the teacher from such an arrangement. President Pritchett has recently remarked that "a pension paid by an employer is in its practical effect deferred pay. . . . There is, indeed, no such thing as a free pension when it is involved in the relation which exists between employer and employee. It will inevitably be absorbed in wages." These remarks obviously apply to a contribution made by a college out of its corporate funds towards the purchase of an annuity for a professor. If the institution has the means of making such contribution, it has also the means of increasing salaries by a corresponding amount. In the

opinion of many, it is much to be preferred that the sum should be paid in the form of salary, and not as an inducement to teachers to employ their own savings in the purchase of a specified type of provision for old age from a designated non-mutual and non-participating insurance company sustaining an anomalous and undesirable relation to our higher educational system. An increase of average salaries in the American colleges is inevitable in the near future, for obvious economic reasons—unless the quality of the profession is to be allowed gravely and rapidly to deteriorate. But it is probable that, as a rule, this future increase will simply be diminished by approximately the amount of the payment made by any institution towards the purchase of annuities.

In the second place, what is proposed by the Carnegie Foundation is that college and university teachers shall be compelled by the boards of trustees of their institutions to purchase something which some teachers do not need, and which many others cannot afford and should not buy. For it is required by the new plan that the joint payments of teachers and institutions shall be devoted to the purchase of deferred annuities. But most of the younger teachers should be employing their savings primarily, not for laying up provision for their own old age, but for the protection of their dependents. An assistant professor at the age of thirty, who is struggling to support a wife and children on $1,800 or $2,000 a year, is usually in no position to buy *both* a future annuity for himself and adequate insurance for his family. It is a grave hardship to such a teacher to compel him to spend nearly ten per cent of his annual compensation for an annuity payable thirty-five or forty years later, and—what would frequently result—to leave his dependents meanwhile without proper protection against the hazard of his death or prolonged illness. Most teachers would, and should, prefer to meet first the more immediate and imperative duty, and to leave provision for their age until the later years of their service, when their salaries will be larger and their children no longer dependent.

We would, in conclusion, once more point out that there is no good reason why an institution's contribution towards annuities for its teachers—if it desires to make such contribution—should be accompanied by the requirement that the annuities shall be bought of the new Insurance and Annuity Association. It is desirable that large institutions should establish their own pension system, contributory or other. Institutions which are not able to do this will, in our

opinion, serve neither their interest nor that of the teacher by making their contemplated additions to the teacher's present or deferred compensation contingent upon his willingness to invest approximately ten per cent of his total salary in a policy of the recently established company. Still less will they do so by making such investment compulsory.

It is, in any case, manifest that no institution should adopt a plan of this kind without full consultation with its faculty. A faculty should, in our opinion, decline as a body to participate in the plan, unless it shall have first been thoroughly examined and discussed by the teachers affected, and shall have been approved by a substantial majority.

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